

**SOUTH CAROLINA  
PUBLIC SERVICE COMMISSION  
COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2007**

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# *State of South Carolina*



## *Office of the State Auditor*

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA  
DEPUTY STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 1, 2008

The Honorable Mark Sanford, Governor  
and  
Commissioners  
South Carolina Public Service Commission  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of South Carolina Public Service Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2007, in the areas addressed. The Commission's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

#### 1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected all recorded receipts from fiscal months 12 and 13, fiscal year 2007, and fiscal month 01, fiscal year 2008 to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked fund to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$43,300 – earmarked fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements from fiscal months 12 and 13, fiscal year 2007 and fiscal month 01, fiscal year 2008 to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the earmarked fund to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$32,600 – earmarked fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Classification of Expenditures in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the earmarked fund to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$32,600 – earmarked fund) and  $\pm 10$  percent.

- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions. We investigated changes of  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Pay Calculation in the Accountant's Comments section of this report.

4. **Journal Entries**

- We inspected selected recorded journal entries to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Commission to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Commission's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Commission's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Commission's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2007, prepared by the Commission and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Classification of Expenditures and Capital Assets Closing Package in the Accountant's Comments section of this report.

9. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the Agency had taken corrective action.

Our finding as a result of these procedures is presented in Classification of Expenditures and Capital Assets Closing Package in the Accountant's Comments section of this report.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the governing body and management of the South Carolina Public Service Commission and is not intended to be and should not be used by anyone other than these specified parties.



Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**ACCOUNTANT'S COMMENTS**

## **SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

## **CLASSIFICATION OF EXPENDITURES**

We tested 25 expenditure transactions. We found that the Commission posted one transaction to an incorrect STARS object code. The Commission posted expenditures for printing business cards and stationary to object code 0209 – Printing, Binding, Advertising instead of using object code 0309 – Printing (for consumable articles of a printed nature). Also, during our review of the Capital Assets Closing Package, we found three instances where the Commission recorded furniture and equipment costing less than \$5,000 to the 0600 series object code - Equipment, Vehicles, And Works Of Art And Historical Treasures (Capitalizable) instead of the 5000 series object code – Equipment, Vehicles, And Works Of Art/ Historical Treasures (Non-Capitalizable). Additionally, during our review of the Litigation Closing Package, we found that the Commission recorded payments to private attorneys to object code 0221 – Legal Services rather than to object code 0240 – Attorney Fees. A similar finding was reported in our prior report.

Effective internal controls require safeguards to ensure that transactions are properly recorded. In addition, the Comptroller General's Policies and Procedures Manual (STARS Manual) provides object code definitions to assist preparers with object code determination.

We again recommend that the Commission strengthen internal controls by ensuring that personnel recording transactions are thoroughly knowledgeable of STARS Manual definitions for object codes.

## **PAY CALCULATION**

During our test of employee terminations, we noted that the Commission miscalculated an employee's final pay because the preparer used an incorrect pay rate. The error resulted in a \$225 overpayment to the employee. The Commission discovered the error subsequent to the payment and has attempted to recover the overpayment from the employee.

Sound business practice requires management to establish and maintain effective internal controls to ensure that all salary and wage calculations and payments are accurate. Effective internal controls require a careful review of pay calculations by someone independent of the preparer. In addition, Section 8-11-30 of the South Carolina Code of Laws states "It is unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due; or (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees..."

We recommend that the Commission comply with State law and strengthen internal control procedures to ensure an accurate calculation of employee pay. Such procedures should ensure that the independent review of pay calculations include tracing amounts used in the calculations (e.g. annual salary) to appropriate source documents.

## **CAPITAL ASSETS CLOSING PACKAGE**

The Office of the Comptroller General obtains generally accepted accounting principles (GAAP) information from the agency-prepared closing packages to use in preparing the State's financial statements. We determined that the Commission's fiscal year 2007 closing packages submitted to the Comptroller General contained errors. To accurately report the Commission's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Section 1.7 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states, "Each agency's executive director and finance director are responsible for submitting ...closing package forms that are: Accurate and

completed in accordance with instructions. Complete. Timely.” Also, Section 1.7 requires an effective, independent supervisory review of each completed closing package and the underlying working papers and accounting records and completion of the reviewer checklist which lists the minimum review steps to be performed. Finally, Section 1.8 directs agencies to keep working papers to support each amount and other information they enter on each closing package form.

During our testing of the capital assets closing package, we noted the following:

1. Two questions on the closing package overview questionnaire were answered incorrectly. In the first instance, the questionnaire asks if any of the closing package forms show net corrections to beginning balances. The Commission checked “no” although it reported net corrections to beginning balances on the Accumulated Depreciation Summary Form. In the second instance, the question asks “Did your agency charge any expenditures to STARS 06xx or 07xx object codes...?” The preparer checked “no” even though the Commission reported expenditures under object code 06xx. The closing package instructs that a Capital Assets Additions Closing Package be completed only for a “yes” response. Appropriately, the Commission completed that closing package. We noted that an independent review of the closing package failed to detect this error. Although the error in the question response did not result in omitting the required closing package, the incorrect response reveals that internal controls (e.g. independent review procedures) are not operating effectively.
2. The Commission reported the wrong amount as net corrections to beginning balances on the Accumulated Depreciation Summary Form. The Commission should have reported the amount disclosed in our prior year finding as a net correction.

3. The Commission capitalized and depreciated three items that did not meet the capitalization threshold. GAAP Manual section 3.8 describes the capitalization criteria for capital assets.
4. The depreciation schedule was improperly prepared. The fiscal year 2007 accumulated depreciation beginning balances for many assets do not agree with the fiscal year 2006 ending balances.

We recommend that the Commission strengthen control procedures to ensure persons preparing and reviewing closing packages are knowledgeable of GAAP Manual instructions. In addition, we recommend that the reviewer verify responses to closing package questions, recalculate computations and verify the accuracy of spreadsheet formulas, and trace beginning balances to prior year ending balances to ensure a more effective review.

## **SECTION B - STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 2006, and dated September 14, 2007. We determined that the corrective action taken by the Commission on each of the findings was not adequate and we have repeated the findings Classification of Expenditures and Capital Assets Closing Package in the Accountant's Comments section of this report.

## **MANAGEMENT'S RESPONSE**

# **SOUTH CAROLINA PUBLIC SERVICE COMMISSION**

## **AGENCY'S RESPONSE**

**AGREED UPON PROCEDURES FOR FY ENDED JUNE 30, 2007**

### **CLASSIFICATION OF EXPENDITURES**

The Public Service Commission financial staff member processing vouchers will verify the object code for each and *every* transaction as well as the voucher approver, to the online STARS Policies and Procedures Manual found on the South Carolina Comptroller General's website.

### **PAY CALCULATION**

The Public Service Commission will implement a 3 phase review of all pay calculations. The initial calculation will be made by Human Resource personnel, the second calculation will then be checked by two employees in the finance department in an effort to eliminate findings involving pay calculations.

### **CLOSING PACKAGES**

The findings of the State Auditor's office have been addressed and corrected with a revised 2008 Capital Assets Closing Package, using the worksheet prepared and recommended by the State auditors. The Public Service Commission staff will attend any and all training that may be offered related to the preparation of Closing Packages.

### **STATUS OF PRIOR FINDINGS**

The 2007 Capital Assets Closing Package was revised with the findings that were discussed with PSC Staff and the auditor. Noted corrections recommended by the auditor were agreed upon by the agency and corrections were made to the 2007 closing package.

The object code misclassification found during the 2006 audit was due to instructions given to the agency from personnel at the Budget and Control Board. As stated above new procedures have been implemented to verify all object codes before payment to eliminate findings in this area.

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